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**MONTANA STATE FUND
BOARD MEETING
December 11, 2020**

The Montana State Fund (MSF) Board meeting was held December 11, 2020 via Zoom.

Directors Attending

Lance Zanto, Helena
Lynda Moss, Billings
Jack Owens, Missoula
Jim Molloy, Helena

Jan VanRiper, Helena
Matt Mohr, Bozeman
Cliff Larsen, Missoula

MSF Staff Attending

Laurence Hubbard, President/CEO
Kevin Braun, General Counsel
Verna Boucher, Spec Asst to Pres/CEO
Mark Burzynski, Corporate Support VP
Julie Jenkinson, Insurance Operations VP
Will Anderson, Interim Operations Support VP
Al Parisian, Chief Information Officer

Rene Martello, Controller
Dan Gengler, Internal Actuary
Kurstin Adamson, ERM Risk Specialist
Darcie Dunlap, Senior Actuarial Analyst
Patti Grosfield, Internal Auditor
Shannon Copps, Director, ESPM
Rick Duane, Human Resources VP

Others Attending

Russell Greig, Willis Towers Watson
Neville Kenning, Kenning Consulting
Bob Biskupiak, CSI

Alex Turrell, Willis Towers Watson
Troy Downing, CSI
Rep. Derek Harvey, Butte

I. Meeting Preliminaries

A. Call to Order

Chair Lance Zanto called the meeting to order at 8:30 a.m. He thanked the attendees for participating and welcomed the Securities and Insurance Commissioner Elect Troy Downing as well as Deputy Insurance Commissioner Bob Biskupiak. He also welcomed Representative Derek Harvey, Legislative Liaison to Montana State Fund from the Economic Affairs Interim Committee (EAIC). He reminded attendees that the meeting was being live-streamed and recorded on YouTube and asked that attendees mute themselves when not speaking. He noted that the posted agenda called for any public comment to be submitted by Thursday, December 10, 2020; however, comment submissions will still be accepted during and after the meeting and should be sent to vboucher@mt.gov. He also noted that Representative Joshua Kassmier, MSF's second Legislative Liaison from the EAIC may also join the meeting if able to do so.

B. Approval of September 11, 2020 Board Meeting Minutes

Chair Zanto said the first order of business was approval of the Board meeting minutes from September 11, 2020 and asked for a motion.

Cliff Larsen made a motion to approve the September 11, 2020 meeting minutes. Matt Mohr seconded the motion. Chair Zanto called for discussion from the Board, MSF Staff and members of the public. There being none, he called for the vote and the motion passed unanimously.

II. Miscellaneous – Laurence Hubbard, President/CEO

A. Miscellaneous

President Hubbard welcomed the attendees and thanked the Board for attending. He called upon Bob Biskupiak, Deputy Commissioner at CSI to introduce Commissioner Elect Troy Downing.

Mr. Biskupiak first provided a brief update on the Commissioner of Securities and Insurance (CSI) office and noted that the past year had been all about COVID-19 and CSI's response to the impacts to staff, consumers and insurance carriers. He noted that in early April, Commissioner Rosendale issued an encouragement to insurance companies to do what they could for their consumers to lessen their burden during this pandemic. He said the industry, overall, responded very well. He said CSI saw the allowance of flexibility on cancellations and premium payments. Processes at CSI were also streamlined to provided additional options such as approvals to get private passenger auto coverage for livery services for food deliveries which was a small change; however, an important one. He said there was also nearly \$30 million in premium credit and dividends in personal auto in savings for consumers. He noted that workers' compensation insurance carriers also responded positively to helping out their customers and he was looking forward to MSF sharing the impacts felt by this company and the industry during the pandemic. He said the transition to Commissioner Downing had already begun and he asked Mr. Downing to introduce himself and say a few words.

Mr. Downing thanked Mr. Biskupiak and noted that he had been prepared to begin his tenure fixing the agency; however, has found it to be in great shape and has found the staff to be impressive and prepared to help him be effective from day one of his term. He noted that CSI is a consumer protection agency and he takes that responsibility very seriously. He said insurance industry advocates know that bad actors are bad for business and he was prepared to address any of those issues that need to be addressed. He added that he wanted this agency to be a partner with the industry so that CSI has an understanding of the industry's pain points and what the concerns are. He said though there may not always be agreement, there will always be the conversation and the opportunity to find the best possible solutions for Montana. He noted that his door is always open and he welcomes all questions, concerns or criticisms because that is the best way they can do their service to the citizens of Montana.

President Hubbard thanked the Commissioner for his comments and expressed his appreciation for the relationship that MSF already had with CSI and looked forward to that continuing.

He agreed that COVID-19 has been the major topic of discussion for most of the year and noted that he has provided updates to the Board of Directors as to the actions MSF has taken to address it. He said a significant action taken in early March was to protect employees while continuing to take care of injured workers and MSF's policyholders. He said a decision was made to not cancel policies between March and September 2020 to provide a grace period for the small businesses that MSF insures to allow time to manage through the downturn, the impact of COVID-19 and to not be an additional problem for them to contend with. He said the premium deferral program went very well and MSF had returned to normal business practices. He said customers have responded positively and there was very little uncollected deferred premium and MSF continues to work with customers on necessary payment plans to help them recover completely. He noted he was proud of the team and operations for being flexible and partnering with the policyholders and continuing to do so in that spirit.

President Hubbard said MSF has seen approximately 138 COVID-19-related claims filed to date from exposures or believed exposures in the workplace. Workers' compensation insurance provides for coverage of occupational disease when the work can be directly related to the exposure during the disease. He noted that not all of the filed claims have been accepted; some have been denied due to a negative test after the claim was filed and some are still pending

investigation. He added that 16 to 20 percent of the filed claims have been accepted and are being processed and handled through the ordinary course of business. He said Montana is fortunate to be a spacious state which may have attributed to the slower rate of transmission of COVID-19. He also noted that cases in Montana were increasing and management would remain diligent about protecting staff by supporting remote work and MSF would continue supporting injured workers and policyholders.

President Hubbard commented that the recent election results will bring a new Governor and administration as well as new agency directors. MSF will work with those directors and the administration to provide responses to their workers' compensation insurance questions. He noted that there will be much change between this meeting and the March 2021 Board meeting including possible Board appointment changes and he encouraged Board members to stay in touch with the Governor's office going forward.

He said MSF was hopeful that the legislative session would not be too busy though there are typically 30 or so bills that directly affect workers' compensation and MSF is prepared to address those bills as necessary. He also noted that MSF's legislative primer had been updated and will be provided to the legislators as the session rolls out to provided educational components about workers' compensation and MSF.

President Hubbard asked Ms. Grosfield to begin her presentation.

B. Report of Internal Auditor – Patti Grosfield, Internal Auditor

Ms. Grosfield provided a report on the external and internal audit activity.

Externally

Ms. Grosfield said the calendar year 2020 statutory financial statement audit work by Eide Bailly had begun and quite a bit of information has been requested and provided to the auditors. She noted that due to COVID-19 travel concerns all work would be completed remotely. She said the field work was scheduled for December 14-18, 2020 and the completion of field work would be February 1 – 12, 2021; also anticipated to be remotely completed. She said the report is anticipated to be completed per their contract by April 2021.

She said the calendar year 2020 GASB or governmental financial compliance audit has not yet begun; however, it is expected that the Legislative Audit Division (LAD) auditors will be on-site in March or April 2021.

Internally

Ms. Grosfield said the dividend audit of the \$20 million declaration made by the Board of Directors at the September 11, 2020 Board meeting has been completed. After the declaration, MSF staff calculated, audited and processed the dividends. She said her role included testing adherence to the MSF dividend policy, the Board-approved parameters, the dividend table and statute. She also reviews and tests the calculations and follows up on the eligibility criteria. She said 22,484 MSF accounts received \$20 million (with some rounding). She noted that the State Agencies received approximately \$864,000 in dividends.

She reminded Board members that the Multiple Public Employment Disclosures reports are due to the Commissioner of Political Practices (COPP) by December 15, 2020. She said the forms can be faxed, scanned or emailed; however, the COPP also requires that a signed form must be submitted via mail or dropped at their office.

Ms. Grosfield provided a review of the CY 2020 Internal Audit Plan and noted that these audit items are reviewed by quarter with the Board throughout the year at the various Board Meetings. She said most of the line items had been completed with the exception of the fourth quarter items that were a work in progress.

She then presented and proposed the 2021 Internal Audit Plan. She noted that best practice indicates that the audit committee, which is the full Board for MSF, approves the audit plan. She said per MSF's internal audit charter, the Internal Auditor reports functionally and administratively to the President/CEO and reports functionally to the Board of Directors. She added that the Board has been approving the internal audit plan since 2017. She said the CY2021 Audit plan was similar to the CY2020 plan and both were created to be quite flexible and provide the ability to adapt to the changing needs throughout the year. She noted that for each quarter there is a place holder for any Board requests that may arise and she encouraged Board members to utilize that.

She invited any questions from the Board and requested the Board approve the plan as presented. Chair Zanto called for questions. There were none.

Jim Molloy made a motion to approve the Calendar Year 2021 Internal Audit Schedule. Lynda Moss seconded the motion. Chair Zanto called for discussion and comments from Board members and the public. Seeing none, he called for the vote and the motion passed unanimously.

Ms. Grosfield added that the upcoming internal audits would be completed on agency incentive payments, the MSF Code of Conduct, Data Confidentiality and Acceptable Use Policy, Employee Leave Plans, Employee Performance Based Pay and ERM Controls Testing and she will be supporting the CY2020 financial statement external auditors.

- C. *Enterprise Risk Management Update – Kurstin Adamson, Enterprise Risk Management Officer*
Ms. Adamson noted that an important component of enterprise risk management (ERM) is building a culture that involves the entire organization either directly or indirectly. She provided a review of the hierarchy of the ERM program at MSF and noted that Kevin Braun, General Counsel and Mark Burzynski, Vice President, Corporate Support, are designated Executive Sponsors and share her notification responsibilities to the Board should that be necessary.

She noted that the 2020 COVID-19 pandemic, supply shortages and the Presidential election created uncertainty globally as well as for MSF and the businesses it insures. She noted that the first risk that was focused on during 2020 was employee safety. After various on-site safety precautions were implemented, MSF realized that shifting to a predominately remote work platform was necessary. She noted that MSF's observations of how other countries and businesses were responding to controlling exposures prompted MSF to shift from an almost entirely office-based staff to an almost entirely remote workforce in less than a week. She said this was a significant accomplishment on behalf of MSF's IT staff and an even greater demonstration of the resilience of all of MSF's employees. She noted that sending employees home to work increased MSF's data security risks and once again, MSF's IT unit stepped up to implement additional controls to decrease that risk. There was concern that employee engagement would plummet; however, with newly realized flexible schedules and improved work/life balance, employee engagement increased.

She said ERM also addressed how the pandemic would affect MSF's policyholders in the case of increased claims and reduced income and reduced ability to pay premiums. She said though these were not risks that would be noticed immediately, increased data monitoring was implemented to

be able to respond appropriately and timely if these increases were detected. MSF also created a claims triage plan in the event of a sudden increase in claims due to a disaster which began development in 2019 but was completed in 2020. Though it is not anticipated this plan is vital during this pandemic, these concerns could occur in other disasters that MSF could face. She noted that MSF offered a premium deferral program to help Montana businesses weather this difficult time and remain in business.

Ms. Adamson noted that the pandemic-related risks took a large amount of effort; however, it did not stop further development of the overall risk management program. She noted that over the past several years, the program has begun asking deeper questions to determine what exactly is at stake and what could prevent or help in achieving MSF's vision of being an indispensable partner in achieving a safer, healthier and more prosperous Montana. She noted that the Enterprise Strategy and Project Management (ESPM) program also plays a huge role in establishing goals and executing strategic initiatives.

She provided a preliminary framework overview that will be used to establish an organization-wide expansion in focus of the ERM program which begins with establishing clear and measurable objectives. She added that though the objectives have not yet been fully set, they will be things such as build insurance competency or gain efficiencies. After the objectives are established a risk-tolerance and risk-management strategy will be developed for each. She said these action items must be accomplished to mitigate MSF's risks. The risk management strategy will weave the existing actions, projects that are currently being pursued and projects that should be pursued, into one road map for MSF's success in achieving its objectives. She noted that as these are developed, they will be shared with the Board of Directors.

Ms. Adamson explained that each year the top ten risks are identified through a discussion and voting mechanism and this year's list contains three new risks that are directly related to the pandemic:

- Man Made or Natural Disaster Event such as an earthquake or terrorism that affect MSF or our policyholders
- Limited or reduced access to medical care for injured employees
- Compliance (or noncompliance) with Title 33/State Auditor's Office

She further explained that compliance concerns for MSF are primarily regarding a pending market conduct exam which is new for MSF and has created uncertainty in meeting all compliance requirements. She noted that MSF has hired an internal Compliance Officer to prioritize the efforts towards a successful exam.

She shared the top list of risks with the Board and noted that the most important means of managing the risks is to ensure that the controls that have been put in place are working and remain effective.

President Hubbard thanked Ms. Adamson for her presentation and clarified for the Board that MSF has not yet been notified of a market conduct exam; however, it is fully expected that one will be conducted in the future.

He also noted that ERM is an important objective of the Board and every employee at MSF and many of the items the Board would be making decisions about at this meeting tie directly to ERM.

Chair Zanto called for questions, there were none.

- D. *Renewal of Compensation Consultant Services Contract – Rick Duane, VP, Human Resources*
Mr. Duane introduced the discussion on the renewal of the compensation consultant service contract with Kenning Consulting. He provided a brief history going back to the choice to contract with Kenning Consulting in 2014 under a RFP process as allowed in §39-71-2317 MCA. MCA 2-18-103 exempts the President/CEO's and MSF's employees' compensation from the state classification and compensation system which supports MSF's market-based pay-for-performance based plan to assure MSF can function as a competitive insurance company. He said that using an external consultant ensures that MSF's compensation is aligned with the insurance market. The current agreement can be renewed for up to seven years and is currently in the sixth year, upon approval, 2021 will complete year seven.

Mr. Duane asked the Board to extend the contract for Kenning Consulting to begin on January 1, 2021 until December 31, 2021. The contract provides for a fee not to exceed \$23,700 for the performance management process and the advice to the Board on the President/CEO's compensation based on his performance. He noted that the agreement also provides for additional work up to \$10,000 that the Board or President Hubbard may find necessary during the course of the contract year. He said if the Board approves the renewal, 2021 will be the seventh and final year of this agreement. In accordance with procurement requirements, a RFP will be launched for these services for 2022 and beyond. This process can begin mid-year.

Chair Zanto called for question from the Board.

Mr. Larsen asked if the historical data regarding the fee is similar to past years.

Mr. Duane said the fees have increased in small amounts over the years; however, this year the fee remains stable and unchanged from last year.

Mr. Moss made a motion to approve the proposed amendment of the Compensation Consultant Services Contract with Kenning Consulting. The motion was seconded by Mr. Mohr. Chair Zanto called for questions or comments from the Board and the public; there were none. He called for the vote and the motion passed unanimously.

- E. *PBRI Update*

President Hubbard reminded the Board that MSF was currently engaged in the Policy Billing Replacement Initiative (PBRI) which was a substantial investment both financially and in terms of resources. The PBRI project is to implement a new policy and billing system as well as two portals that provide our insurance producer partners as well as customers better access to information regarding their policies and insurance accounts with MSF. He said this initiative began in earnest in 2017 and since then the MSF team and the contracted systems integrator, HCL America, have been engaged in development and system integration testing and are now in the phase of user acceptance testing, which is the last significant milestone before the system can be implemented. He said the MSF team had planned and assured the Board that the PBRI system would be launched by the end of December 2020. He said he regretted to inform the Board that the team will not make that date.

He said the system is a good system and the application was developed by the same company, Guidewire, that MSF purchased its claim system from. MSF has purchased the license for both systems and in order to make the policy and billing system effective, it was necessary to integrate the new application with our old data to make it functional for Montana's workers' compensation system. He noted that every state has a different workers' compensation system which required

efforts to customize to the extent possible, the out-of-the-box software with MSF's operations and manner of doing business.

He said the difficulty is that as defects are being discovered, MSF is dedicated to not launching a system that is not of high quality and responsive to our needs. He noted that there were currently approximately 40 open, critical or high-level defects that need to be resolved before the system can be implemented. He said the next opportunity to launch is February 14; however, that is also at risk at this time due to the slower rate of resolution of defects in order for MSF to be able to test the system.

President Hubbard said the next opportunity may be the middle of May and with this report he is recalibrating the expectations of the Board to see a system launch within the first half of 2021. He said once the system is implemented, it will be necessary to manage the roll out to customers and partners because the system will be new to them as well. Employee training on the new system is the first order of business and we are engaged in that training now. He reminded the Board that it is a good system, that the application itself is a very useful system; there are just some glitches that need to be resolved before it can be rolled out to our customers.

Chair Zanto noted that he has been engaged in discussions with President Hubbard regarding this project and assured the Board that President Hubbard is engaged with the President of HCL and resolving the issues are top on his mind for moving forward.

III. Reserve Reports – Montana State Fund

A. Introduction – Laurence Hubbard, President/CEO

President Hubbard noted that the Board would be determining the level of the unreserved liabilities and loss adjustment expenses (LAE) for incurred claims to include in the CY2020 financial statements. He said the consulting actuaries from Willis Towers Watson, Russell Greig and Alex Turrell, will provide their estimations of the loss and LAE reserves.

B. Montana State Fund Calendar 2020 Reserve Report – Russell Greig, Senior Director, Willis Towers Watson and Alex Turrell, Director

Mr. Greig said the objective of Willis Towers Watson's analysis was to provide an aggregate amount of the unpaid claims benefits and include a provision for claim administration expense or LAE. He noted that this analysis encompasses injuries occurring between July 1, 1990 and December 31, 2020. He provided a review of the methodologies that were used to determine the aggregate amount of unpaid claims benefits and explained how each was applied. He reported that over the last 12 months, the change in Willis Towers Watson's total projection of loss is minus \$9.3 million or minus 0.3 percent.

He provided a comparison of the unpaid loss development for MSF and the industry and noted that over the last nine to ten years, MSF's loss development has been stabilized and has trended to be slightly favorable. He added that medical emergence development patterns have continued to stabilize and in the last nine months were below expectations and actual versus expected is minus \$6.2 million. He said indemnity development patterns have been generally well-behaved and the actual versus expected for payments is slightly adverse at \$1.4 million in the past nine months. He noted that indemnity severity has stabilized in the latest ten years and short-term medical trends are slightly higher than longer-term trends. Frequencies are not dropping as much so five-year claim frequency trends are slightly higher than the 10-year trend; however, the frequency trends have stabilized.

Mr. Turrell began his portion of the presentation and noted that the total loss ratios have been generally stable over recent policy periods and any fluctuations are primarily driven by medical.

He said the total actuarial central estimate of unpaid benefits as of December 31, 2020 is \$628 million for medical and \$157 million for indemnity for a total of \$785.1 million before reinsurance. He said this represents a decrease of approximately \$12.5 million from last year's report and this does not address any reductions on reinsurance.

He said there is uncertainty embedded in every actuarial and financial model because the aggregate amount of unpaid claims benefits is an estimate. Therefore, there are several contingencies that can impact future analyses. Medical costs may increase more than expected due to medical technology, utilization and higher frequency of severe diagnoses. Frequency and severity trends can fluctuate and benefit changes can result from law changes and/or court decisions and the level of attorney involvement. The expansion and contraction of economic cycles and social trends can have an effect, as well as the duration of injuries.

Mr. Turrell noted that there is a considerable range of uncertainty around the actuarial central estimate of unpaid loss as of December 31, 2020.

Low estimate	Actuarial Central Estimate	High Estimate
\$703.9 million	\$785.1 million	\$898.7 million

He said MSF's equity exists to absorb adverse reserve development as it is more likely than not that MSF will be dealing with adverse reserve development as well as favorable reserve development. Policyholder equity is there to also support the continued growth in MSF's undiscounted loss and loss adjustment expense and to minimize the impact of unexpected events on MSF's financials. He said, for example, MSF's equity could be significantly impacted if medical inflation rates exceed long-term averages by two percentage points annually for the next ten years. The impact would be an increase of approximately \$99.3 million above the actuarial central estimate which is approximately 19 percent of the June 30, 2020 policyholder equity. Those additional costs would have to be funded from MSF's policyholder equity and could not be recouped by ratemaking. He said ratemaking is prospective and cannot collect for past unfavorable development.

Mr. Turrell explained that Willis Towers Watson's estimates include considerations regarding amounts estimated to be recovered under MSF's reinsurance programs. In addition, Willis Towers Watson establishes an estimated claim administration expense (LAE). The selected provision is 14.5 percent of future loss payment which recognizes that a significant portion of LAE occurs when the claim is first filed.

He provided a review of the overall conclusion depicted below and offered to take questions.

Overall Conclusion as of December 31, 2020

- Unpaid claims benefits & LAE – Actuarial Central Estimate

Medical	\$628.0 million
Indemnity	157.0
Unpaid claims administration expense	113.8
Total gross unpaid benefits & administration	\$898.9 million
Reinsurance	(1.1)
Total net unpaid benefits & administration	\$897.8 million
- Considerable uncertainty is associated with projections of unpaid claims & LAE
 - Low estimate, \$792.9 million
 - High estimate, \$1,028.7 million

Mr. Greig added that overall, MSF’s loss experience has stabilized, which is a key take away and means the improvements and investments that have been made in claims and operations are bearing fruit.

Chair Zanto called for questions from the Board and the public. There were none.

C. *Montana State Fund Calendar Year 2020 Reserve Recommendations – Laurence Hubbard, President/CEO*

President Hubbard presented management’s recommended loss and LAE reconciliation. He explained there are additional items, such as reserve strengthening, other states’ exposure/employers’ liability and additional LAE that are necessary to address and include for the Board’s consideration when adopting MSF’s loss and LAE. Management recommends a slightly more conservative estimation of net unpaid losses and LAE at \$939 million.

He explained that MSF takes a slightly more conservative internal view of MSF’s reinsurance recoverables against reinsurance. He said these are long term contracts in two different types of arrangements; one is excess of loss which would cover a very catastrophic event and MSF could retain the first \$5 million in any given occurrence of liability. This program requires more than one injury in an occurrence. An example would be an earthquake that would hit the Capitol Complex midday and may result in a number of injuries and deaths. The likelihood is very low but the severity, should an earthquake occur, would be very high. He said management recommends the 32.1 reserve strengthening be maintained.



Recommended Loss and LAE Reserves *(in millions)*

(as of Dec. 31, 2020)

	<u>Willis TW</u>	<u>MSF</u>
Unpaid Losses	785.1	785.1
LAE	<u>113.8</u>	<u>113.8</u>
Gross Losses and LAE	898.9	898.9
Adjustments:		
Reinsurance	(1.1)	(0.4)
Reserve Strengthening		32.1
Other States/EL		3.7
Additional LAE		<u>4.7</u>
Net Unpaid Losses and LAE	<u>\$ 897.8</u>	<u>\$ 939.0</u>

Total MSF Recommended Losses and LAE	\$ 820.3
	\$ 118.7

Willis Towers Watson Estimates

<u>Low</u>	<u>Central</u>	<u>High</u>
\$805.5	\$897.8	\$1,015.5

December 11, 2020

President Hubbard noted that management recommends \$820.3 million for loss reserves and \$118.7 million for LAE reserves for a combined total of \$939 million.

Chair Zanto called for questions. There were none.

Mr. Molloy asked if a motion was needed and President Hubbard indicated that one was.

Mr. Molloy said based on the actuary’s best estimate of unpaid losses and loss adjustment expenses, adjusted for projected reinsurance recoverable, and for President Hubbard’s recommendation for loss reserves for Other States Coverage, Employers’ Liability, and reserve

strengthening, on an undiscounted basis as of December 31, 2020, he moved the Board adopt \$820,309,825 as the unpaid loss reserve and \$118,651,739 as the loss adjustment expense reserve estimates for the Montana State Fund financial statements for the year ending on December 31, 2020, to be adjusted for changes based on the actual benefits paid at end of the year. Chair Zanto seconded the motion. Chair Zanto called for discussion.

President Hubbard apologized for indicating that the motion was needed at that time and said he was going to ask Rene Martello to provide the 2020 projected financial report based on his loss and LAE recommendations. He indicated it was okay to complete the motion first and then Ms. Martello could provide the report.

Chair Zanto thanked President Hubbard for clarifying the process.

He called for discussion on the motion once more, there was none. He called for public comment, there was none. He called for the vote and the motion passed unanimously.

D. Calendar Year 2020 Projected Financial Report – Rene Martello, Controller

Ms. Martello provided an overview of what the approved loss reserve numbers will look like in the 2020 projected financials. She provided the timeline and explained the progression of the audits and financial statements needed to complete the annual reporting cycle. She said the year-end close process must be completed in a few weeks and the financial reports (the financial statement, the actuarial opinion and other schedules) must be submitted to the CSI office by March 1, 2021. She said an update of the status of the audits will be provided to the Board at the March 12, 2021 Board meeting as well as an explanation of the variances between the 2020 projected results provided today and the financial results as of December 31, 2020. She said the complete packet including the final audited financial statement is due to CSI on June 1, 2021. She noted that at the June 18, 2021 Board meeting the statutory and GASB audits will be available for the Board's review.

She said current year net loss reserves are at \$105.3 million which is \$8.8 million better than 2019. She explained that prior accident year ultimate losses were \$104.8 million higher than 2019 at \$3.4 billion; however, the prior accident year ultimate losses are an aggregate of all prior accident years going back to 1990. She said each year adds an additional accident year to this reported amount; however, this is better than usual and includes the \$9.3 million favorable development. She said net loss reserves are projected to be \$785 million which is \$13.9 million better than 2019. She said with management's adjustments the overall recommended loss and LAE reserves are \$938.9 million which is \$17.6 million better than the prior year.

She spent some time reviewing the third quarter 2020 results because there were quite a few changes from one quarter to the next. She noted it was difficult to determine what the impacts of this year were going to be and how those compared to the original business plan. She added that net income before dividends was estimated to be \$27.5 better than planned; however, at first quarter there were concerns there would be a loss of business and payroll of up to 20 percent. At second quarter results were looking better and the payroll decrease was changed to an estimated 15 percent loss of business in 2020. As the year progressed into third quarter, there was more experience to compare to, there had been time to see how the premium deferral program was working and there was significant new business written. That reduced the projected loss of payroll estimate in the third quarter to just 3 percent. She said loss expenses incurred as of third quarter reflected estimates by internal actuaries that reflect favorable development that occurred in 2020. She noted that with less premium expected, there are few losses associated with that. She said net underwriting expenses are projected to be better than planned by \$5.2 million and

agent commissions are less than expected due to less premium, travel and training and project costs that did not occur at the level expected for 2020. The net underwriting loss was \$4.2 million; however, it was planned at \$19.7 million. She said the other large variance was in the net investment area. She said net investment income was on track; however, realized gains were not forecast to continue to have the significant investment gains that were experienced in previous years. In July, there was a large equity sell-off as the markets were reacting which resulted in \$15 million in realized gains from equity sales and \$4 million in realized gains from bond trading activity in the year. She said the projected net realized gains were at \$19.4 million or approximately \$12.4 million better than expected for the year.

Ms. Martello said policyholder equity was projected to be \$565.2 million. She said the reserve-to-equity ratio is projected to be 1.67 which is within MSF's target range of 1.5 to 1 to 2.5 to 1. She said that ratio is very similar to the reserve-to-equity levels over the last six years despite the continued rate reductions and the on-going issuance of large dividends.

She noted that at this point she would have asked for the Board's approval of the Loss and LAE reserves; however, that had already been provided. She offered to answer any questions on the third quarter or projected year-end financial results.

Chair Zanto called for questions or comments.

Chair Zanto commented that the \$3.4 billion in ultimate losses level spoke volumes to him and he recognized that this is big business.

President Hubbard spoke to the Chair's point about the importance of MSF to the small businesses it insures and the workers that MSF covers for all of these years. He said the efforts over the last 30 years to improve the health of MSF have been critical and noted that there will be a reminder at the end of the meeting when the Board hears about the Old Fund regarding not having enough money. He said MSF does not want to ever be in the position of having unfunded liabilities in the future. He said he thought it was important to acknowledge that it's because of the good work of this and other MSF Boards that MSF's financial health has been built to the level that it is today. He said "hats off" to our Board members for supporting that direction.

Mr. Larsen thanked Ms. Martello for her great presentation. He said as a small customer of MSF, he holds himself out there as an example. He said he really liked the advertising that he has seen from MSF which is a feel-good message on television. He said he also liked the documentation that is sent to all customers, including himself though his premium is pretty small and he still received a dividend. He said he liked the fact that there is interaction between the consumer, himself and the agency on whose Board he sits. He noted that he wanted to report that back because he believes President Hubbard's leadership and staff like Ms. Martello and all the others that have been speaking for MSF should get a nod. He thanked President Hubbard and all of his staff.

- E. Adoption of Montana State Fund Calendar Year 2020 Unpaid Loss and Loss Adjustment Expense Reserve Estimate – Laurence Hubbard, President/CEO*
This item was completed prior to Ms. Martello's presentation.

IV. Calendar Year 2020 and 2021 Annual Business Plan – Laurence Hubbard, President/CEO

A. Annual Business Plan Introduction

President Hubbard called upon Shannon Copps to present the status of the 2020 Business Plan and MSF staff to present the proposed Calendar Year 2021 Business Plan.

B. Calendar Year 2020 Annual Business Plan Status – Shannon Copps, Director of Enterprise Strategy and Project Management

Ms. Copps provided the Key Success Measures and noted that these were the year-end projections based on available information up to September 30, 2020.

Key Success Measures

KSM	2020 Plan	2020 Projection
Net Earned Premium	\$149.1M	\$144.6M
Loss Ratio	74.2%	68.3%
Expense Ratio	39.0%	34.6%
Investment Income	\$44.1M	\$55.7M
Net Operating Income (prior to dividend)	\$21.0M	\$48.5M
Achieve Enterprise Wide Initiatives		

She said that as of September, the higher impact that was expected did not materialize and net earn premium was expected to be \$144.6 million just slightly below the \$149.1 million that was planned. She said new premium and retention as well as less impact from COVID-19 to policyholders were the bright spots. She said a loss ratio of 74.2 percent was planned; however, the projection now is 68.3 percent. Both loss expenses and underwriting expenses are projected to come in lower than planned which places the expense ratio at 34.6 percent. She said investment income saw large gains compared to the plan of \$11.6 million over plan and net operating income before dividend is projected to be \$27.5 over plan at \$48.5 million. She noted the major drivers as being the decreased losses, decreased expenses and investment gains.

Chair Zanto called for questions; there were none.

Ms. Copps said the three initiatives for CY2020 were all focused on customer service. She said 2020 is the fifth year of the work to replace the policy and billing system (PBRI) with the five modern applications that will enhance our service and improve efficiencies. She added that MSF continually looks for ways to reduce Montana’s high rate of workplace injuries and has developed two safety initiatives to accomplish that goal.

She said the PBRI project is off track due to the schedule. There was extraordinary effort from the team, including long days and holidays over the last several months where they made good progress on user acceptance testing, fixing the defects that were found and user training. She said critical defects remain and the decision was made to delay implementation. She said quality is the number one priority and MSF is committed to launching systems that are free of material defects for both MSF employees and customers. She said the team is working to identify a new date in which they have confidence. She indicated that Julie Jenkinson would provide a bit more details on the progress for 2020 in the 2021 Annual Business Plan Presentation.

Chair Zanto called for questions, there were none.

Ms. Copps said the WorkSafe Champions project was expected to be completed as planned even though COVID-19 did have some impact to the delivery to some extent as policyholders and MSF put in-person trainings on hold. She said the team is providing virtual training for policyholders

who are receptive to this method for both the on-site and central class formats. There are six policyholders and 48 participants for the on-site option, though three of the six paused that training due to COVID-19. She said there are 12 participants from smaller employers who are attending the virtual central workshop. She said the team has received eight applications thus far for the safety grants of \$3,000. The grants are awarded to the WorkSafe Champion graduates who apply and meet eligibility requirements and the grants further support the organization's safe work development.

She said the Growing a Safer Montana project is on track and expands MSF's efforts to reach young workers and change the safety future of Montana. The team awarded PPE grants to 37 high school classes which were delivered in August 2020. A pre-recorded safety video was also sent to the instructors to share with their students. The second part of the project is to award scholarships to students in trade and occupational safety and health programs. In November, the team selected 15 people; five from Montana Tech in occupational safety and health and industrial hygiene programs and 10 scholarships were awarded to students who were studying trades including welding, construction and electrical in several colleges throughout the state. There is a virtual award ceremony planned for January 14, 2021.

Ms. Copps said currently the PBRI project was behind schedule. The other two projects were scheduled to complete as planned.

Chair Zanto called for questions.

Chair Zanto commented that MSF had a very favorable development; however, MSF is still in a very fluid environment and there is uncertainty about what the future holds in terms of rebuilding the economy and getting Montana opened back up which would lend itself to possibly more exposure to claims. He said he believed MSF was in a saving mode right now.

C. Calendar Year 2021 Annual Business Plan – Shannon Copps and MSF Staff

Ms. Copps moved to the Calendar Year 2021 Annual Business Plan and presented the Key Success Measures:

- Generate Total Net Earned Premium of \$149.7 million – which includes producing \$13.3 million of new premium and achieving a 90.7 percent premium retention. This is a very strong retention rate; however, it is consistent with retention patterns over the past few years.
- Achieve 69.2 percent loss ratio with prior period favorable development of \$4 million.
- Achieve 40.0 percent expense ratio. This would include loss adjustment expense at 13.3 percent and managing operating expenses to 26.7 percent which includes general expenses and commissions paid to MSF's agent partners.
- Achieve investment income of \$42.3 million.
- Achieve Net Operating Income of \$24.7 million before dividend.

Chair Zanto called for questions; there were none.

Ms. Copps said there were three initiatives for the 2021 Annual Business Plan that will continue to focus on customer service and safety. She said MSF was close to launching the modern systems

for the core billing, policy and rating applications as well as adding the two new portals, which will occur next year. She said MSF will continue to positively impact Montana's high rate of workplace injuries with the Growing A Safer Montana and WorkSafe Champions initiatives. She introduced Ms. Jenkinson, Vice President of Operations to present the initiatives.

Ms. Jenkinson said the PBRI project was covered briefly earlier in the meeting and confirmed that everything was not going as directly planned; however, she reminded the Board that the project was begun five years ago and it is difficult to have a tight five year plan. She added that the project is replacing the policy system and the billing system which is essentially new though there was billing in the old system; however, the new system is very robust. She said MSF had a rating engine system which is also being replaced and in addition to that two portals are being added, one for customers and one for agents. She said the size of this project is quite large. She noted that when discussions about replacing the old policy system started the old system was 18 years old and it is now 23 years old. She said the team is very much looking forward to the "empty nest" and moving to production in the next year and to interacting with customers in a much better, more efficient way and giving them more functionality. She said the point of the effort has been made over the past five years and in fact part of the reason for the delay, is as Ms. Copps and President Hubbard mentioned, MSF's commitment to quality. She said that quality that allows our staff to be more efficient and spend more time with customers. She said these are things we have talked about for the last five years and it bears repeating.

She said the project begin with Independent Validation and Verification (IV&V) in 2015 and she noted that when the Board was asked for that support, we believed they would be valuable to the project; however, what has actually been the case is that they have been invaluable to the project. Their support, advice and oversight has been critical to the success of this project so far. She said in 2016 the request for proposal (RFP) was realized and then in 2017, the Board allowed the team to choose their partners, Guidewire and HCL and actually begin progressing with the actual development. In 2018, the actual real development began in earnest. She said the project did get stalled between 2018 and 2019 as the team realized the development was very complicated and organizational change management was begun. She said in 2020 development was finished and testing began in two phases. The first phase was system integration testing to make sure all of the development work amongst the five different platforms, once connected, all work as intended. She said the second phase was user acceptance testing which has been used in the last half of 2020. The point of that is to ensure the system as designed operates exactly as it is needed to remain productive. She said for 2021 the testing will continue, though that had not been planned as of last year, it was hoped to go live by the end of 2020. She said they discovered during the last version of user acceptance testing that there were more defects still continuing to be found in the system than would indicate a perfectly stable system. She said they are insisting on a second end-to-end testing to make sure that the system is reliably stable not just for our employees but also for our customers. She said our employees require that reliability to make sure that they can meet the needs of the customers and our customers deserve that assurance from us, that we will continue to be there for them and deliver on our promise. She said they are currently clearing the defects from the first user acceptance testing process and once cleared a second end-to-end test will begin that is designed to assure that the system is stable.

Ms. Jenkinson added that one of the efforts for 2021 is to also support implementation which includes continuing to ensure that our staff are ready and trained when the new system goes live. She added that some training was completed at the end of 2020 and now that the implementation has been suspended, is to assure that our staff remain ready when we do go live. She stressed MSF's commitment to absolutely ensure that the system is quality and stable. She said one of the key points of this system is to realize additional business value for us and for our customers. That

will be measured in three ways; how many expenses have been saved, how many efficiencies have been gained and whether or not there is better quality for our customers and for our own data internally. She said the business values identified actually have real value; there is a return on investment and less manual processing, more on-line capability and more business opportunity and more business capability such as the multiple entities on one policy and improved billing functionality. She said all of that will continue to be part of the evaluation of the business value and the return on our investment for the system. She said some of the specific issues are hundreds of manual steps removed as well as improving the self-service ability for our customers. She said they can get on-line and get the service they need when they want it not just when we are open during the day.

She said the size of the project is quite large and has been on-going for quite a long time. She took a moment to recognize Erika Ayers and Sandy Leyva, the Project Managers for this project. She said they have exhibited extraordinary ability to manage so many moving pieces and hold our partners accountable and hold ourselves accountable to assure that we are requiring that quality. She said it is tempting at times to accept some of the risk back to MSF and allow the project to go live; however, we are absolutely committed to making sure that we hold ourselves and our partners responsible and that we continue to remain dedicated to a quality delivery. She said the project team has not compromised quality for the speed of delivery and while it has been a bit of a marathon, the team is reenergized by how close the project is to completion. She said they are excited to begin what they hope is the last round of testing to make sure they are wrapping everything up and actually seeing the fruits of their labor from five years of effort.

On behalf of Al Parisian, herself and President Hubbard and the entire project team, she thanked the Board for their continued support. She noted the Board has been patient at times when the team felt it needed to delay or needed to add resources and they all appreciate the Board understands what they are trying to accomplish and supporting that effort.

She asked if the Board had any questions or discussion items on PBRI.

Ms. Moss asked if, with the pandemic, the team has learned anything in the last six months that will impact unfolding this new system to make sure that it meets the needs that we have seen surface in the past six months.

Ms. Jenkinson said what they have learned is that life can be very different than we imagined it and we can still be very successful. She said we might have doubted that we could transition to working not in the office and not together and do that successfully. The team has used other tools such as Microsoft Teams, Zoom a lot of sharing things on-line and it has actually been pretty incredible that everyone has felt as successful at first. She said everyone was a little nervous at the front that things would be missed; however, that simply hasn't been the case and people have linked arms a little more carefully. She said what we have learned about what our customers need is that our ability to meet or be aware of what we've needed translates into the needs of our customers and that on-line capability is absolutely critical. She said one thing that she had not addressed is that they are delaying implementing our portals until our staff is comfortable with the new system and that is being done to assure that when our customers begin using the system, we can support them. We expect they will be using the system even more than we intended at first because we have all learned that life goes on and it becomes a 24-hour work day anytime during that 24 hours. She said we anticipated that; however, it is a little bit different than what we now know is actually a reality. She said they have also learned that people can be trained remotely and we do not have to be sitting right next to them to assure them we can support them in their training effort. The team has been incredible in identifying ways that they can be more

creative and support people and she said she believed that would directly equate into better service for our customers when they get on the system.

President Hubbard said he agreed wholeheartedly about enabling customers to function successfully and our teams to function successfully with a new kind of normal remote work environment. He said he wanted to distinguish that from what has been learned about isolation in a remote environment and how the connectivity with our customers and one another is so critical for our operational health and our cultural health. He said that is a distinction that really did not land until later in the pandemic for him and we struggled with the loss of connectivity which reinforces for him what makes MSF so different from other customer experiences. He said when customers call us, they get a person who is in Montana, raising their kids and their families in Montana and playing in Montana and that is so important in the value that we provide in the connection to our customers and injured workers. He said not losing that with all of these enhancements is really something we need to be aware of.

Ms. Jenkinson said she could not agree more. She added that everyone is learning to exist in this new environment and it is not easy every day. She said she believed it has actually helped the people in Operations specifically as they deal with their customers, to be more empathetic and be more aware of the ways in which we are all struggling to connect and communicate. She said she is looking forward to using some of the tools that we are growing weary of such as Zoom and Teams because it is better to have the face-to-face communication and she said she thought we could even use more of that with our customers.

Ms. Jenkinson then moved onto the safety initiatives. She said Growing A Safer Montana has been around for a few years and WorkSafe Champions has been around for over a decade. She clarified that the effort of both projects is to create a continuum of safety support to actually impact the safety culture of Montana. She said that is one of MSF's major objectives. She said they are always looking for ways to expand MSF's safety influence.

She said Growing A Safer Montana will see continued support to the high school classrooms in industry and trades as well as continued scholarships. She said they are looking to expand the programs to include middle school classrooms where that safety message can reach even young students. She said the whole point is that safety is not something they have to tolerate or get through in a classroom, that they actually understand the impact and the potential for them to create a safer environment when they start work and what that means to them. She said the next iteration for 2022 is to expand beyond trades and industries such as construction and mining and looking for the next opportunity to expand to the wider safety culture of Montana.

She said in the four years that the safety grants have been activated, this program has impacted over 8,600 students. She said they are hopeful that that translates into them not just being safer workers but actually having safety be part of their landscape, not something additional that they have to think about, it just becomes how they think about work. She said potentially, with the other expansion into high schools and middle schools, this program could reach every high school or middle school in Montana. All schools are eligible to apply, and the program will be looking at providing those grants to them in the areas where they need help. She added that they plan on continuing the scholarships for safety and health professionals so that they get hired by employers to make their workplaces safer, as well as the trades and industry technical programs to make those workers safer. She said the scholarships have been improved from the beginning of the program from \$1,500 to now annual scholarships of \$4,000. She said this demonstrates MSF commitment to not just the lives of the Montana workers but improving Montana's safety culture

overall. She said MSF wants to continue to reduce Montana’s place in the national average of workplace injuries.

Ms. Jenkinson said the WorkSafe Champions program has been going for ten plus years and has been expanded to include opportunities for employers of all different sizes to participate. She said if they cannot participate with an on-site effort, there are centralized workshops where they can come and participate with fewer participants but still have the opportunity to access the same curriculum. She said in 2021 the program will finish up the sessions that were not able to finish in 2020. She noted that not all participants were comfortable with the pivot to a digital environment; however, as the isolation has continued, more employers are opening up to the digital approach. She said her safety staff have made a lot of effort to not just get proficient at the tools; they also learn ways to make the training more engaging and more effective in an on-line environment. She said they recently gave each other a class this last week and she said she believed the Board will see that more employers will be comfortable in the digital environment as they realize that it will not just be death by PowerPoint.

She said there is another component called WorkSafe Champions Elite which ensures that past graduates of WorkSafe Champions stay engaged in working through their risk management as well as helping them, if they need grants, to help improve the safety of their location. This past year grants of up to \$3,000 were awarded for about 11 different recipients. She said they are encouraging people who want to continue that effort to join WorkSafe Champions Elite and then be eligible for these grants where they might be helpful. She said in the ten years of the WorkSafe Champions program, MSF has graduated over 680 people affecting over 345 policyholders. The impact is growing and they continue to look for ways to expand and measure the impact. The team will continue to work through that this year as well.

Ms. Jenkinson offered to answer any questions; there were none. She thanked the Board for their support of the on-going safety projects and said that by the middle of the next year, she hoped to be able to report to the Board that the new PBRI system has gone live and provide a report on how that his going.

Ms. Copps provided the financial components of the business plan projects for 2020 which is depicted below.



2021 Business Plan Budget

Project	Budget
Policy and Billing Replacement	\$3,772,385
Worksafe Champions	\$84,785
Growing a Safer Montana	\$118,201
Total	\$3,975,371

Chair Zanto called for questions; there were none.

Chair Zanto made a motion the Board adopt the proposed Calendar Year 2021 Annual Business Plan. The motion was seconded by Mr. Larsen. Chair Zanto called for questions or comments.

Ms. Moss added that she appreciated MSF's commitment to workers' safety. She said she thought that was so important and continues to unfold MSF's financial well-being remains stable and management continues to develop and deploy more safety programs. She commended the staff and thanked them for their efforts in spreading the safety message.

Chair Zanto commented that it was about taking care of the injured workers but also about getting the employers taken care of and hopefully not having injuries in the first place. He said MSF has been a leader in this regard; the advertising, communication, and WorkSafe Champions programs, as Mr. Larsen pointed out earlier, are making a difference.

Mr. Biskupiak commented to Ms. Jenkinson. He said she knows that he has had a high interest in the policy and billing system going back even before implementation and he said it was exciting to see that the team is getting closer to the finish line for the benefit of consumers and the agents.

Chair Zanto called for additional comments or questions, there were none. He called for the vote and the motion passed unanimously.

V. Calendar Year 2020 Budget Update and 2021 Budget Request – Laurence Hubbard, President/CEO

A. Budget Introduction

President Hubbard asked Rene Martello, MSF Controller to present the third quarter financial budget update.

B. 2020 Third Quarter Update and Budget Amendment Request - Rene Martello, Controller

Ms. Martello provided the 2020 third quarter variance report as of September 30, 2020. She said total expenditures were projected to be 98 percent spent or \$3.8 million under budget. She noted that the budget of \$112.6 million included the budget amendment of \$10 million that was approved at the September 2021 Board meeting. She said even with that amendment added, \$111.7 million is projected to be spent or approximately a million under budget for the year. She noted that recent activity in October and November could bring the expenditures closer to the planned amount. She said operational expenditures are expected to be \$2.98 million under budget.

She noted that the settlements that occurred in 2020 did have indemnity components as well as medical which offset each other. She noted that the budget amendment was an aggregate of the total amount needed to cover indemnity and medical. She said operational expenditures were expected to be \$2.9 million under planned and the largest variance could be found in personal services at approximately \$1 million. She said on average through the beginning of October there were about 28 vacant positions or a nine percent vacancy rate through the year due to the difficulty of recruiting and filling positions during the pandemic. She added that there were nine new employees hired in October.

Ms. Martello said the operating expenses were projected to be \$3 million under budget which was driven by the agent commission payments being lower due to lower premium collection for the year. She said there were also projects such as the producer portal that were postponed until 2021. She said overall there was less postage, travel, meeting, training and consulting resources used as MSF transitioned to the work-from-home environment. She said capital expenditures were budgeted at \$4.2 million and were expected to be \$5.6 and that overage reflects the additional consulting resources that were needed to focus on the PBRI project. Allocated loss adjustments

expenses (ALAE) were projected to be under by \$350,000 due to lower expense associated with medical invoicing processing and legal expenses.

Ms. Martello provided a review of the budget for safety items and provided a breakdown of each item. She said the total amount that was budgeted for these services is expected to be spent by the end of the year.

Covid-19 Related Expenditures	<u>Projection</u>	<u>Actuals</u>
Safety Supplies/PPE Grants	\$266,135	\$260,888
Computer Software/Hardware	\$131,251	\$122,202
Building Sanitizing	\$26,332	\$26,332
Communications	<u>\$175,906</u>	<u>\$90,210</u>
Total Covid-19 Related Expenditures	\$599,624	\$499,632

She provided a review of some of the unexpected costs related to COVID-19 that were not included in the 2020 budget.

She also provided a review of the safety expenditures and noted that in 2019 there was \$2.9 million spent on safety services for customers and staff with a budget increase for 2020 to \$3.2 million. She said with the additional activities that were necessary in 2020 that projection was now closer to \$3.8 million or about 5.4 percent of MSF’s safety budget.

Chair Zanto called for questions; there were none.

C. *2021 Budget Request – Mark Burzynski, VP Corporate Support*

Mr. Burzynski said net earned premium is expected to increase slightly by 3.5 percent in 2021 to \$149.7 million, which is based on 23,800 active policies. He noted that due to COVID-19 the number of active policies is closer to 23,000. The full impact of COVID-19 has not yet been determined; however, there has been additional business written during this period that accounts for \$16 million, due primarily to the addition of Montana Association of Counties (MACO) as a policyholder. He said investments for 2020 were \$55.7 million and the expected investment income of for 2021 is \$42.3 million.



2021 Budget Request

	2021 Budget	2020 Budget	2020 Proj - 3Q	2021 Budget change from 2020 Proj - 3Q
Claim Benefit Payments				
Indemnity	\$38,334,390	\$35,924,455	\$38,079,760	0.7%
Medical	69,934,675	76,640,976	73,587,691	-5.0%
Total Claim Benefit Payments	\$108,269,065	\$112,565,431	\$111,667,451	-3.0%
FTEs	306.00	307.00	307.00	-0.3%
Operational Expenditures				
Personal Services	\$32,787,265	\$31,437,518	\$30,418,347	7.8%
Commissions	10,696,141	10,840,064	10,018,598	6.8%
All Projects	6,624,614	11,757,188	12,277,699	-46.0%
All Other Operational Expenditures	17,323,917	16,213,543	14,584,739	18.8%
Total Operational Expenditures	\$67,431,937	\$70,248,313	\$67,299,383	0.2%
Total MSF Expenditures	\$175,701,002	\$182,813,744	\$178,966,834	-1.8%

He provided the snapshot of the 2021 budget request depicted on Page 19 and noted that the overall budget was for expenditures of \$175.7 million. He said benefits payments, including

indemnity and medical, were \$108.3 million and operational expenses were at \$67.4 million. He noted that settlements are impacting the benefit payments, as well as the inability to return to work and the difficulty in getting access to providers. He said that medical settlements totaled \$42.2 million in 2020 and \$40.4 million is expected in 2021.

Mr. Burzynski said personal services makes up 48.6% or \$31.4 M of the budget and the largest of the operational expenditures is made up of all salaries, merits, retirements, employee taxes and benefit payments less vacancy savings for 306.00 FTE (308 positions).

He provided an overview of the significant expenditure areas and noted that the producer portal that was budgeted for in 2020 was moved to the 2021 budget. He added that the SITSD expense was increasing in 2021 and will increase further in 2022 and this charge for use of the state systems is not within MSF's ability to control the cost and significant increases of 32.2 percent are expected. He noted that the overall budget request for the annual business plan and ESPM projects is \$6.6 million.

Mr. Burzynski continued his presentation with a comparison of MSF's financial sources with financial obligations. He emphasized how important investment returns and realized gains are for MSF's balance sheet to generate profit, and for the Board to be able to declare dividends for the past several years while strengthening the balance sheet. He said the expense ratio is at 40 percent for 2021. He noted that MSF's expense ratio compares very favorably with other workers compensation players nationwide.

He summarized that the total operational expenditures were \$67.4 million and the claim and benefit payments were \$108.3 million resulting in a total budget request of \$175.7 million with 306 FTE and 308 positions.

Chair Zanto called for questions; there were none.

Ms. Moss made a motion the Board approve the proposed Montana State Fund budget for Calendar Year 2021 totaling \$175,701,002, as follows:

- *Total Operational Expenditures of \$67,431,937, including the costs that are reimbursed to Montana State Fund for Old Fund administration; and*
- *Montana State Fund Benefit Payments of \$108,269,065.*

The President is to retain and may utilize the prior direction from the Board to adjust expenditures among first level expenditure categories, and may increase staffing, as long as the total approved budget amount is not exceeded. The motion was seconded by Mr. Larsen. Chair Zanto called for discussion or comments from the Board, staff members and the public; there was none. He called for the vote and the motion passed unanimously.

VI. Insurance Operations Support – Will Anderson, Interim VP, Operations Support

A. Construction Industry Premium Credit Program Approval

Mr. Anderson provided historical background on the development and implementation of the construction industry premium credit program. He explained this program was developed in the mid-90s to provide premium savings or discounts for those employers engaged in the construction industry that pay their workers higher than average wages. He said the table provided shows the update that MSF is proposing to implement on July 1, 2021. He added that year over year, these percentages do not change a whole lot, typically less than one percent by category; however, what

does tend to change are the minimum qualifications and the cutoff on the high end. He offered to take any questions

**Construction Industry Premium Credit Program
 Applicable to policies effective July 1, 2021 to July 1, 2022**

Average Hourly Wage	Credit Percentages
\$24.77 or less	0.00%
\$24.78 to \$25.13	0.34%
\$25.14 to \$25.54	1.09%
\$25.55 to \$26.02	1.94%
\$26.03 to \$26.57	2.88%
\$26.58 to \$27.21	3.92%
\$27.22 to \$27.94	5.06%
\$27.95 to \$28.79	6.32%
\$28.80 to \$29.77	7.68%
\$29.78 to \$30.90	9.15%
\$30.91 to \$32.20	10.72%
\$32.21 to \$33.71	12.39%
\$33.72 to \$35.45	14.16%
\$35.46 to \$37.46	16.00%
\$37.47 to \$39.78	17.91%
\$39.79 to \$42.47	19.87%
\$42.48 to \$45.58	21.85%
\$45.59 to \$49.17	23.84%
\$49.18 to \$53.32	25.81%
\$53.33 to \$58.12	27.75%
\$58.13 or more	29.64%

Chair Zanto called for questions.

Mr. Larsen asked how long this program had been in place and how many people participate in this program.

Mr. Anderson said it has been around since the mid-1990s and in that time wages have risen considerably and he said he did not have the numbers on how many participate; however, that was something that could be supplied to the Board. He shared that the process is automated in the system that identifies one of the eligible class codes (there are 71 different eligible class codes) so when one or more of those is on a policy, the application for this program is automatically sent for them to submit to participate. He said MSF is quite proactive in that regard.

Mr. Mohr made a motion the Board adopt the plan of credit percentages for Montana State Fund's Construction Industry Premium Credit Program, for new or renewal policies, with effective dates of July 1, 2021 to July 1, 2022, as proposed by Montana State Fund management. Mr. Larsen seconded the motion. Chair Zanto called for discussion, questions or comments from the Board and the public; there were none. He called for the vote and the motion passed unanimously.

Mr. Anderson noted that Dan Gengler, MSF Internal Actuary, provided clarification that there were approximately 600 policies that participate in the construction credit program on an annual basis.

B. Classification Code Update

Mr. Anderson provided an overview of the class code changes that were implemented in Montana in 2020. He said they were reviewed and approved at the Classification Review (CR) Committee meeting in April 2020. There were two approved filings made by NCCI:

Item Filing B-1436 (part of a two-phase transition with code elimination at new & renewal as of 7/1/2020)

- Delete classification Codes 8825-Retirement Living Centers (RLC) and Nursing Homes-Food Service Employees and replace with 8826-Retirement Living Centers (RLC) and Nursing Homes-All Other Employees & Salespersons, Drivers

Item Filing B-1437 (effective for new & renewal as of 7/1/2020)

- Delete Classification 4670 Cottonseed Oil MFG. – Drivers and replace with 4683 Oil MFG. – Vegetable – NOC and code 7380 Drivers, Chauffeurs, Messengers, and Their Helpers NOC – Commercial
- Delete Classification 5508 Street or Road Construction – Rock Excavation & Drivers and replace with 5507 Street or Road Construction – Rock Excavation & Drivers
- Classification 4360 Motion Picture-Development of Negatives, Prints, and all Subsequent Operations will become a MT State Special Classification (prior to 7/1/2020 a National Classification being eliminated). No impact in MT.
- Item Filing B-1437 (part of a two-phase transition with code elimination at new & renewal as of 7/1/2021)
- Code 2286 Wool Spinning & Weaving and 2220 Yarn or Thread MFG - Cotton are loss cost/rate combined to reflect the first year of a two-year transition program. In the second year of the transition (effective 7/1/2021 for new and renewals) 2286 Wool Spinning & Weaving will be discontinued and replaced with code 2220.
- Code 2670 Glove MFG. - Leather and 2688 Leather Goods MFG. NOC are loss cost/rate combined to reflect the first year of a two-year transition program. In the second year of the transition (effective 7/1/2021 for new and renewals) 2670 Glove MFG. - Leather will be discontinued and replaced with code 2688.

He said there are always some class codes changes and noted that the changes made this year were rather sedate; no real material changes for 2020. He said the rate impacts to employers from the class code changes were either flat or a decrease. He noted that class code changes with a premium increase tend to receive more attention. He also said many of the class codes addressed this year were very obscure and MSF had 41 policies in force when the B-1436 change was made.

Mr. Anderson said that regarding the B-1437 filing, MSF only had business in one of the class codes and it was a single policyholder. He noted that policyholder's premium declined by 40 percent which was a material change for that one policyholder.

Chair Zanto called for questions or comments from the Board and the public; there were none.

VII. Corporate Support – Mark Burzynski, VP Corporate Support

A. Old Fund Fiscal Year 2021 First Quarter Budget Summary – Rene Martello, Controller

Ms. Martello provided an update on the status of the Old Fund as of September 30, 2020 which is the end of the first quarter for the State of Montana fiscal year.

She said overall, the funding estimate for the Old Fund was projected to be \$1.3 million below the projection of 8.5 million. She noted the majority of that variance was in the claim benefit payment category; however, that is a reflection of just the first three months of the fiscal year. She noted that October and November did see a little more activity; however, the forecast was still just under the funding estimate for the fiscal year.

She said annual estimate for indemnity will be under budget by \$567,000 and the medical category will be \$769,000 under. She noted that the forecast for settlements had not been adjusted and overall was assumed to be \$1.3 million under the funding estimate.

Ms. Martello said as of December 1, 2020, there were 473 open claims in the Old Fund and this was the first time she had reported that the claim count was under 500. She said beginning in 2020 there were 509 claims and approximately 35 have closed. She said Old Fund claims often reopen and there is the possibility that a new Old Fund claim could be filed.

She said in operational expenses, the administrative costs are assumed to be on track and those are reimbursed to MSF from the General Fund for managing the Old Fund claims. She added that the DOLI assessment was on track and the ALAE was projected to be down because the correlating invoice processing fees will be down.

Chair Zanto called for questions; there were none.

VIII. President/CEO Compensation Review and CEO Succession Planning

A. Introduction – Notice of Closure of Meeting – Lance Zanto, Chair of the Board

Chair Zanto asked if President Hubbard wished to waive his right of privacy to his individual performance as it relates to the setting of his compensation?

President Hubbard said he did not wish to waive his rights to privacy except for the Compensation Consultant, Neville Kenning, Rick Duane, Human Resources Vice President and Kevin Braun, General Counsel.

Chair Zanto closed the meeting at 12:36 p.m. to be reopened after the discussion of the President/CEO's individual performance as it relates to the setting of his compensation.

B. Meeting Closed to the Public.

C. President/CEO's Compensation Review

REOPEN MEETING

Chair Zanto announced the meeting was again in session at 1:46 p.m. and open to the public.

IX. **President/CEO Compensation**

A. *Introduction – Lance Zanto – Chair of the Board*

Chair Zanto clarified that the Board had discussed President Hubbard's performance and the work they had been doing beginning in March through June and reassessed their analysis and the work completed to this point. He said the Board had made a decision on the President/CEO's performance and compensation adjustment. He called for a motion.

B. *President/CEO's Annual Compensation – **Board Action***

Mr. Molloy made a motion that the Board increase President Hubbard's salary from \$395,000 to the sum of \$418,000, retroactive to July 4, 2020. Ms. Moss seconded the motion. Chair Zanto called for discussion and comments. Seeing none, he called for the vote and the motion passed unanimously.

President Hubbard thanked the board for their continued support and recognition and acknowledge of his performance over the past year and half. He said he very much appreciate it and also acknowledged and said he recognized that a lot of people are struggling in the COVID-19 pandemic and he is not insensitive to those who are not able to participate the way many of us are with good paying jobs and competitive compensation. He said he honors that and he cherished the responsibility that the Board has given to him and also acknowledged the commitment that the Board and the management team have for each other.

C. *Budget Amendment for the Calendar Year 2020*

A budget amendment was not necessary to cover the change to President Hubbard's salary and no action was taken on this item.

X. **Old Business/New Business**

Mr. Molloy said this will be his last Board meeting. He said that was no secret to anyone. He said it had been an honor to serve on the Board and he said he wanted to tell President Hubbard and his team that they have done great work. He said he has learned a lot as a member of the Board. He jokingly said his transition onto the Board was very smooth and did not create any controversy. He said it had been an honor and President Hubbard and his team are doing a great job and he said he appreciated what they have done. He said this was his farewell to all and he wished everyone the best moving forward.

President Hubbard thanked Mr. Molloy and wished him well also.

Chair Zanto added that it had been a pleasure working with Mr. Molloy and the great input that he brought to the Board was very much appreciated.

Mr. Larsen said he too was leaving the Board. He said this was his last board meeting as well. He said he would be submitting a resignation and his name will not be on file on January 4, 2021. He said he did not want it to be when the new Governor was inaugurated. He said he felt really good about this experience. He said President Hubbard has done a great job and has a fantastic pool of talent. He added that having been involved in workers' compensation activities for over 40 years, he said he could tell the difference between the ones that get it done and those that do not. He thanked Chair Zanto for being a good, calm leader who has a pretty long fuse and he said he appreciated that. He said good-bye everybody and it has been a pleasure.

Chair Zanto said the same to Mr. Larsen. He said it has been a pleasure and being able to work with him has been a pleasure and an honor. He said Mr. Larsen will be missed and his contributions and help have been very much appreciated. He thanked him again.

President Hubbard also wished Mr. Larsen well.

Chair Zanto called for additional old business or new business.

Ms. Moss thanked everyone at MSF as well as our policyholders. She commented that everyone has navigated this time of uncertainty and trauma and trying to stay true to MSF's vision and values and she said she sincerely appreciated all of the teams hard work in staying steady and true and being there for our injured workers.

Ms. VanRiper said she echoed Ms. Moss's comments and asked to go back and make a comment on the salary decision the Board had just made.

Chair Zanto asked Mr. Braun if that would be allowed and Mr. Braun clarified that public comment is always allowable.

XI. Public Comment

Ms. VanRiper said it was important for the record to reflect that the Board considers a number of factors when making a salary decision. She said the amount that was settled upon reflects a tough decision for the Board considering the COVID-19 situation and what small businesses are facing; however, the President/CEO is still under market rate for relevant other CEO's in that position. She said she felt it was important to let the public know that piece of it.

Chair Zanto thanked Ms. VanRiper for the comment and clarification for everyone.

Chair Zanto called for additional public comment.

Mr. Braun thanked Mr. Molloy and Mr. Larsen for their service on the Board. He said he really appreciated their participation on the Board and noted that he respected them immensely.

Mr. Mohr also thanked Mr. Molloy and Mr. Larsen for their service. He asked them to keep in touch if there was anything he could do for them.

Ms. VanRiper said she also appreciated their service.

The meeting adjourned at 1:55 p.m. The next scheduled Board meeting will be held on Friday, March 12, 2021 at Montana State Fund, 855 Front Street, Helena, Montana in the first floor Board Room.

Respectfully submitted,

Verna Boucher
Special Assistant to the President/CEO